

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
(Project No. 000-55074)

Financial Statements, Supplementary Information, and  
Management's Discussion and Analysis

June 30, 2004

(With Independent Auditors' Reports Thereon)

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
(Project No. 000-55074)

June 30, 2004

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**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

The Board of Supervisors  
County of Fairfax, Virginia

United States Department of Housing  
and Urban Development

The Board of Commissioners  
Fairfax County Redevelopment  
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Cedar Ridge (Project No. 000-55074) (the Project), as of and for the year ended June 30, 2004 as listed in the accompanying table of contents. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Project are intended to present the financial position and changes in financial position and cash flows of only the Project. They do not purport to, and do not, present fairly the financial position of the Fairfax County Redevelopment and Housing Authority as a whole as of June 30, 2004 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of the Project referred to above present fairly, in all material respects, the financial position of the Project at June 30, 2004 and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the Project's basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was made for the purpose of forming an opinion on the Project's financial statements taken as a whole. The supplementary information on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the Project's financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the Project's financial statements, and, in our opinion, is fairly stated in all material respects in relation to the Project's financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and the other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

August 13, 2004

## **FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge

(Project No. 000-55074)

Management's Discussion and Analysis

June 30, 2004

### **Introduction**

The Fairfax County Redevelopment and Housing Authority (FCRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment, and revitalization programs within Fairfax County as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors created the Department of Housing and Community Development (HCD) to act as the development and administrative agency for the FCRHA and the Board in meeting the housing and community development needs of the County's low and moderate income residents.

The FCRHA presents this discussion and analysis of its rental program – Cedar Ridge, Project No. 000-55074 (the Project) for the fiscal years ended June 30, 2004 and 2003 to assist the reader in focusing on significant financial issues. The Project, consisting of 198 rental units, is included in the overall Fairfax County Rental Program.

### **The Project's Financial Highlights for FY2004**

In summary, the Project's FY 2004 financial highlights include the following:

- At June 30, 2004, total assets and liabilities were approximately \$11 million and \$12 million, respectively; thus total net assets were a deficit of approximately \$1 million. However, this deficit includes accumulated depreciation of approximately \$3.7 million and a 1% HUD Capital Improvement loan of approximately \$1.4 million, which is only payable upon sale or refinancing of the project.
- Total revenues and expenses were approximately \$2 million and \$2.1 million, respectively; thus net assets were reduced by approximately \$166,000.
- Cash flows from operations amounted to approximately \$930,000. After considering investing and capital and related financing activities, there is approximately \$17,000 net increase in cash.

Overall, the Project's financial highlights present a strong financial position for FY2004.

### **Project Financial Statements**

This discussion and analysis presents the Project's FY2004 financial results in three financial statements – the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The FY2004 financial results are also compared to FY2003 thus allowing readers to ascertain the reasons for changes in expenses, revenues, or net asset balances. These financial statements were prepared using the economic resources measurement and focus and the full accrual basis of accounting. Under the full accrual basis of accounting, the financial statements recognize revenues in the period they are earned and expenses in the period in which they are incurred.

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

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(Project No. 000-55074)

Management's Discussion and Analysis

June 30, 2004

**Summary of Net Assets**

The Project's statement of net assets, which is similar to a balance sheet, reports all financial and capital assets of the Project and is presented in a format where assets minus liabilities equal net assets. The following table reflects a condensed summary of net assets as of June 30, 2004 and 2003:

Description	2004	2003	Increase (decrease)
Current and other assets	\$ 1,357,945	1,304,037	53,908
Capital assets, net	9,361,503	9,732,344	(370,841)
Total assets	10,719,448	11,036,381	(316,933)
Current liabilities	422,454	394,711	27,743
Long-term liabilities	11,471,364	11,649,932	(178,568)
Total liabilities	11,893,818	12,044,643	(150,825)
Net assets (deficit):			
Invested in capital assets, net of related debt	(2,301,601)	(2,100,262)	(201,339)
Restricted	1,150,427	1,109,904	40,523
Unrestricted	(23,196)	(17,904)	(5,292)
Total net assets (deficit)	\$ (1,174,370)	(1,008,262)	(166,108)

The Project's statement of net assets generally reflects a strong financial position for FY2004 when one takes into consideration the fact that the above deficit is a result of accumulated depreciation of approximately \$3.7 million and the outstanding balance on a 1% HUD Capital Improvement loan of approximately \$1.4 million, which is only payable upon the sale or refinancing of the project. The Project's net assets also consist of an unrestricted net deficit of \$23,196 and restricted net assets composed of deposits and fund reserves of \$1.15 million. Restricted assets of the Project include escrow deposits from the mortgagees and funded reserves.

**Summary of Revenues, Expenses, and Changes in Net Assets**

The Project's statement of revenues, expenses, and changes in net assets (similar to an income statement) includes operating revenues, such as rental income, operating expenses, such as administrative, utilities, repairs and maintenance, and depreciation, and nonoperating revenues and expenses, such as investment income and interest expense. The statement reported a loss of \$166,108 in FY 2004. Table 2 presents a condensed summary of data from the Project's statements of revenues, expenses, and changes in net assets.

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Rental Program – Cedar Ridge

(Project No. 000-55074)

Management's Discussion and Analysis

June 30, 2004

**Table 2**

Summary of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

<b>Description</b>	<b>2004</b>	<b>2003</b>	<b>Increase (decrease)</b>
Revenues:			
Operating revenues	\$ 1,974,538	1,976,869	(2,331)
Interest income	5,584	14,601	(9,017)
Total revenues	1,980,122	1,991,470	(11,348)
Expenses:			
Operating expenses	1,434,133	1,495,928	(61,795)
Interest expense	712,097	720,710	(8,613)
Total expenses	2,146,230	2,216,638	(70,408)
Decrease in net assets	\$ (166,108)	(225,168)	59,060

In FY2004 operating revenues were \$1,974,538 and the Project's operating expenses totaled \$1,434,133, most of which consisted of administrative expenses related to personnel salaries and employee fringe benefit contributions, auditing costs, insurance and office supplies. The decrease in operating expenses is primarily attributable to cost cutting measures which resulted in a decrease in administrative, operating, and insurance expenses.

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge

(Project No. 000-55074)

Management's Discussion and Analysis

June 30, 2004

**Capital Assets and Debt Administration**

The Project's capital assets as of June 30, 2004 included land, buildings, and improvements and furniture and equipment that totaled \$9,361,503 and net of accumulated depreciation of \$3,696,672. A breakdown of these assets is shown in table 3.

**Table 3**

Change in Capital Assets of the Cedar Ridge Project

<b>Description</b>	<b>Beginning balance</b>	<b>Net change</b>	<b>Ending balance</b>
Nondepreciable assets:			
Land	\$ 2,492,265	—	2,492,265
Other depreciable assets:			
Buildings and improvements	10,378,352	36,856	10,415,208
Furniture and equipment	150,402	—	150,402
Accumulated depreciation on other depreciable assets	(3,288,675)	(407,697)	(3,696,372)
Totals	\$ 9,732,344	(370,841)	9,361,503

The Project was sold to the FCRHA on May 23, 1995 and was financed by the FCRHA assuming the original first mortgage of \$1,503,259. The outstanding balance of the mortgage loan carries an interest rate of 3.0% with the final payment due September 1, 2010. The monthly principal and interest payment is \$10,203, and the land, buildings, and equipment of the Project are pledged as security for the mortgage loan. During 2004, the Project made scheduled principal payments of approximately \$99,900 and the outstanding balance at June 30, 2004 amounted to \$696,938.

In addition, the Project obtained a HUD Section 241(f) mortgage in the amount of \$10,131,000 at an interest rate of 7.05%, with final payment due July 1, 2035. The monthly principal and interest payment is \$63,325, and the land and an assignment of income is pledged as security on the loan. During 2004, the Project made scheduled principal payments of approximately \$82,700, and the outstanding balance at June 30, 2004 amounted to \$9,559,267.

**Project Challenges for the Future**

The FCRHA entered into a Project Transfer and Operating Agreement with Reston Interfaith, Inc. when it acquired the Project in 1995. Details related to the execution of this transfer, which is expected to take place by June 2005, is discussed in note 7 of the notes to the financial statements.



**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

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**Contacting FCRHA Management**

This financial report is designed to provide the citizens of Fairfax County, taxpayers, customers, and investors and creditors with a general overview of the Project's finances and to demonstrate the Project's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia, 22030.

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
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**Statement of Net Assets**

June 30, 2004

**Assets**

Current assets:

Cash	\$	28,214
Accounts receivable (net of allowance for uncollectible accounts of \$6,148)		9,939
Prepaid expenses		79,555
Total current assets		<u>117,708</u>

Restricted assets:

Reserves and mortgage escrows (note 4)		1,150,427
Deposits held in trust		89,810
Total restricted assets		<u>1,240,237</u>

Capital assets (notes 3 and 4):

Land		2,492,265
Buildings and improvements		10,415,208
Equipment		150,402
Accumulated depreciation		<u>(3,696,372)</u>
Total capital assets, net		<u>9,361,503</u>
Total assets		<u>10,719,448</u>

**Liabilities**

Current liabilities:

Accounts payable and accrued liabilities		128,063
Deposits held in trust		89,810
Deferred revenue		12,841
Mortgage and note payable (note 4)		191,740
Total current liabilities		<u>422,454</u>

Noncurrent liabilities:

Mortgages and note payable (note 4)		11,381,998
Accrued interest (note 4)		89,366
Total noncurrent liabilities		<u>11,471,364</u>
Total liabilities		<u>11,893,818</u>

**Net Assets**

Invested in capital assets, net of related debt		(2,301,601)
Restricted net assets		1,150,427
Unrestricted net assets (deficit)		<u>(23,196)</u>
Total net asset (deficit)	\$	<u><u>(1,174,370)</u></u>

See accompanying notes to financial statements.

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
(Project No. 000-55074)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

Operating revenues:	
Dwelling rentals	\$ 1,923,381
Other	51,157
Total operating revenues	<u>1,974,538</u>
Operating expenses:	
Personnel services	359,380
Utilities	146,758
Repairs and maintenance	254,895
Other supplies and expenses	265,403
Depreciation	407,697
Total operating expenses	<u>1,434,133</u>
Net operating income	<u>540,405</u>
Nonoperating revenues (expenses):	
Interest revenue	5,584
Interest expense	(712,097)
Total nonoperating expenses, net	<u>(706,513)</u>
Change in net assets	<u>(166,108)</u>
Total net assets (deficit) – beginning of year	<u>(1,008,262)</u>
Total net assets (deficit) – end of year	<u><u>\$ (1,174,370)</u></u>

See accompanying notes to financial statements.

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
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Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:	
Rental receipts	\$ 1,926,197
Other operating cash receipts	51,157
Payments to employees for services	(356,042)
Payments to suppliers for goods and services	(289,563)
Repairs and maintenance paid	(254,895)
Utilities paid	(146,758)
Net refund of tenant security deposits	328
Net cash provided by operating activities	<u>930,424</u>
Cash flows from investing activities:	
Interest received	<u>5,584</u>
Net cash provided by investing activities	<u>5,584</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(36,856)
Principal payments on mortgages payable	(182,677)
Interest payments on mortgages payable	(699,658)
Net cash used in capital and related financing activities	<u>(919,191)</u>
Net increase in cash	16,817
Cash, beginning of year	<u>1,251,634</u>
Cash, end of year	\$ <u><u>1,268,451</u></u>
Reconciliation of net operating income to net cash provided by operating activities:	
Net operating income	\$ 540,405
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation	407,697
(Increase) decrease in tenant accounts receivable	(5,893)
(Increase) decrease in prepaid expenses	(31,198)
(Increase) decrease in accounts payable and accrued liabilities	7,038
Increase (decrease) in accrued compensated absences	3,338
Increase (decrease) in tenant security deposits	328
Increase (decrease) in deferred revenue	8,709
Net cash provided by operating activities	\$ <u><u>930,424</u></u>

See accompanying notes to financial statements.

# **FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
(Project No. 000-55074)

Notes to Financial Statements

June 30, 2004

## **(1) Narrative Profile**

The Fairfax County Redevelopment Authority (the Authority), Rental Program – Cedar Ridge, No. 000-55074 (the Project) land and buildings were acquired by the Authority on May 23, 1995 and are located in northwestern Fairfax County, Virginia. The Project consists of 198 residential apartment units that were originally financed by the previous owners. The Authority financed the acquisition by assuming the original first mortgage and a new HUD-insured Section 241(f) mortgage. The Authority is a component unit of the County of Fairfax, Virginia (the County).

The accompanying financial statements present only the financial position, changes in financial position, and cash flows of the Project and are not intended to present fairly the financial position, changes in financial position, or cash flows of the Authority as a whole in conformity with accounting principles generally accepted in the United States of America (GAAP).

## **(2) Summary of Significant Accounting Policies**

The accounting policies of the Project conform to GAAP as applicable to proprietary fund types of governmental units. The following is a summary of the Project's more significant accounting policies:

### **(a) *Basis of Accounting***

The activities of the Project are accounted for on an economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The Project applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989 unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

### **(b) *Cash***

Cash represents operating cash, which is maintained in various FDIC-insured accounts.

### **(c) *Restricted Assets***

Restricted assets represent restricted deposits and funded reserves held by the Project or the mortgage servicers pursuant to the HUD regulatory agreement or capital improvement loan agreement. All amounts are fully insured or collateralized. Such amounts are included in cash for purposes of the statement of cash flows.

### **(d) *Compensated Absences***

Employees of the Project are granted vacation and sick leave based on their length of service. Unused vacation leave is payable to employees upon termination based on the employees' current rate of pay, up to certain limits. Sick leave does not vest with the employee. Accumulated vacation is recorded as an expense and an accrued liability as the benefits accrue to employees. The liability calculations include an accrual at the current rate for ancillary salary – related payments (e.g.,

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June 30, 2004

employer's share of social security taxes). All amounts are included as a current liability as the Project expects all amounts accrued at June 30, 2004 to be liquidated in 2005.

**(e) Revenue Recognition**

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned.

**(f) Capital Assets**

Capital assets are defined by the Authority as assets with initial individual costs of more than \$5,000. Capital assets are recorded at cost when purchased and at fair market value when donated. Depreciation on buildings and equipment is calculated using the straight-line method over estimated useful lives of 27.5 years for buildings and improvements and five to ten years for furniture and equipment. Depreciation is not recorded on land.

**(g) Operating Revenues and Expenses**

The Project's policy is to report all revenues and expenses as operating, except for interest income and expense.

**(3) Capital Assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance</b>
Capital assets not being depreciated:				
Land	\$ 2,492,265	—	—	2,492,265
Capital assets being depreciated:				
Buildings and improvements	10,378,352	36,856	—	10,415,208
Furniture and equipment	150,402	—	—	150,402
Total capital assets being depreciated	10,528,754	36,856	—	10,565,610
Less accumulated depreciation for:				
Buildings and improvements	3,203,751	377,618	—	3,581,369
Furniture and equipment	84,924	30,079	—	115,003
Total accumulated depreciation	3,288,675	407,697	—	3,696,372
Capital assets, net	\$ 9,732,344	(370,841)	—	9,361,503

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Notes to Financial Statements

June 30, 2004

**(4) Mortgages and Note Payable**

In connection with the acquisition of the Project, the Authority assumed a mortgage with a balance of \$1,503,259 as of May 23, 1995. This mortgage carries an interest rate of 3.0%, with final payment due September 1, 2010. The monthly principal and interest payment is \$10,203. The land and buildings of the Project are pledged as security for the mortgage loan.

In addition, the Project obtained a HUD Section 241(f) mortgage in the amount of \$10,131,000. This mortgage carries an interest rate of 7.05%, with final payment due July 1, 2035. The monthly principal and interest payment is \$63,325. The Project's land and assignment of income is pledged as security for the mortgage loan.

The aggregate amount of required principal and interest payments on the mortgage loans as of June 30, 2004 is \$24,322,349 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2005	\$ 191,740	690,595
2006	201,339	680,998
2007	211,503	670,833
2008	222,271	660,065
2009	233,682	648,654
2010–2014	879,930	3,072,626
2015–2019	1,037,324	2,762,202
2020–2024	1,474,196	2,325,329
2025–2029	2,095,059	1,704,467
2030–2034	2,977,399	822,127
2035–2039	731,762	28,248
Total	<u>\$ 10,256,205</u>	<u>14,066,144</u>

On May 24, 1995, HUD and the Authority signed a promissory note for a Capital Improvement Loan for an amount of \$1,510,000 to fund certain costs in connection with the rehabilitation of the Project. Interest on the loan accrues at 1% each year on the principal amount. HUD has deferred all principal and interest payments on this loan until the Project is sold or the underlying mortgage is refinanced or expires. The Project is ultimately responsible for all principal and interest payments. At June 30, 2004, outstanding principal and interest on the loan amounted to \$1,317,533 and \$89,366, respectively.

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(Project No. 000-55074)

Notes to Financial Statements

June 30, 2004

The changes in the long-term liabilities during 2004 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Acquisition mortgage note	\$ 796,833	—	99,895	696,938	102,930
HUD Section 241(f) mortgage	9,642,049	—	82,782	9,559,267	88,810
HUD Capital Improvement Loan	1,317,533	—	—	1,317,533	—
	<u>\$ 11,756,415</u>	<u>—</u>	<u>182,677</u>	<u>11,573,738</u>	<u>191,740</u>

**(5) Management of Project**

The Project is managed by an unrelated management company pursuant to a management agreement. The management company is paid a fixed monthly fee of \$6,569 for its services in 2004. Such fees amounted to \$78,828 in 2004, and are reported in other supplies and expenses on the statements of revenues, expenses, and changes in net assets. Additionally, the management company is reimbursed for operating costs associated with managing the property. Such costs include a reimbursement for certain salary and related expenses of employees of the management company.

**(6) Risk Management**

The FCRHA Project is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and citizens, and natural disasters. For all of these risks, the FCRHA Project participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the cost of which is borne by the County. There were no claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004.

**(7) Project Transfer Agreement**

In 1995, upon acquiring the Cedar Ridge Apartment Complex, FCRHA entered into a Project Transfer and Operating Agreement (Agreement) with Reston Interfaith Inc. (RII). The Agreement defines the following option for future ownership and management by RII; "The FCRHA would transfer ownership of the project to RII, subject to assumption by RII of the existing debt on the property, but without additional consideration required and without retention by the Authority of any legal interest in the Project." The Agreement originally required the transfer to occur on or before July 27, 2000; this date was extended in subsequent amendments of the agreement to June 30, 2005 and was approved by the Authority. Currently, RII is in the process of requesting modification to the Regulatory and Use Agreements that are attached to the HUD financed mortgages on the property. The project transfer is on hold pending HUD's approval of the modifications.



## **SUPPLEMENTARY INFORMATION**

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge

(Project No. 000-55074)

Supplementary Information

June 30, 2004

The following supplementary information is presented for the purpose of additional analysis:

**Reserve for Replacements**

In accordance with the provisions of the regulatory agreement, restricted cash held by Prudential Huntoon Paige Associates to be used for replacement of property with the approval of HUD is as follows:

Balance, June 30, 2003, confirmed by mortgagee	\$	455,694
Interest		966
Monthly deposits		79,780
Withdrawals		<u>(62,182)</u>
Balance, June 30, 2004, confirmed by mortgagee	\$	<u><u>474,258</u></u>

**Residual Receipts Reserve**

In accordance with the provisions of the regulatory agreement, restricted cash held by United Bank and Prudential Huntoon Paige Associates to be used with the approval of HUD is as follows:

Balance, June 30, 2003	\$	329,066
Interest earned		<u>1,463</u>
Balance, June 30, 2004	\$	<u><u>330,529</u></u>

**Reserve for Improvements**

In accordance with the provisions of the Capital Improvement loan agreement, restricted cash held by United Bank to be used for project improvements.

Balance June 30, 2003	\$	311,010
Interest earned		<u>3,015</u>
Balance, June 30, 2004	\$	<u><u>314,025</u></u>

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

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(Project No. 000-55074)

Supplementary Information

June 30, 2004

**Mortgage Escrow Deposits**

In accordance with the provisions of the regulating agreements, mortgage escrow deposits held by Midland Loan Services and Prudential Huntoon Paige Associates for the payment of property taxes and insurance is as follows:

Balance June 30, 2003	\$	14,134
Deposits		65,434
Withdrawals		<u>(47,953)</u>
Balance, June 30, 2004	\$	<u><u>31,615</u></u>

**Other Information**

Total mortgage principal payments required during the audit year (12 monthly payments). Applies to all direct loans and HUD-held and fully insured mortgages. Any HUD-approved second mortgages are included.

\$ 182,677

Total of 12 monthly deposits in the audit year made to the replacement reserve account, as required by the regulatory agreement, even if payments are temporarily suspended or reduced.

\$ 79,780

**Computation of Surplus Cash,  
Distributions and Residual  
Receipts**

**U.S. Department of Housing  
and Urban Development**

Office of Housing  
Federal Housing Commissioner

Project Name Cedar Ridge		Fiscal Period Ended: June 30, 2004	Project Number HUD Project No: 000-55074	
<b>Part A – Compute Surplus Cash</b>				
<b>Cash</b>				
1. Cash (Accounts 1110, 1120, 1191, 1192)		\$	118,024	
2. Tenant subsidy vouchers due for period covered by financial statement		\$	2,415	
3. Other (describe)		\$	—	
(a) <b>Total Cash</b> (Add Lines 1, 2, and 3)				\$ 120,439
<b>Current Obligations</b>				
4. Accrued mortgage interest payable		\$	57,903	
5. Delinquent mortgage principal payments		\$	—	
6. Delinquent deposits to reserve for replacements		\$	—	
7. Accounts payable (due within 30 days)		\$	26,848	
8. Loans and notes payable (due within 30 days)		\$	—	
9. Deficient Tax Insurance or MIP Escrow Deposits		\$	—	
10. Accrued expenses (not escrowed)		\$	43,312	
11. Prepaid Rents (Account 2210)		\$	12,841	
12. Tenant security deposits liability (Account 2191)		\$	89,810	
13. Other (Describe)		\$	—	
(b) <b>Less Total Current Obligations</b> (Add Lines 4 through 13)				\$ 230,714
(c) <b>Surplus Cash (Deficiency)</b> (Line (a) minus Line (b))				\$ (110,275)
<b>Part B – Compute Distributions to Owners and Required Deposit to Residual Receipts</b>				
1. Surplus Cash				\$ None
<b>Limited Dividend Projects</b>				
2a. Annual Distribution Earned During Fiscal Period Covered by the Statement		\$	—	
2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period		\$	—	
2c. Distributions Paid During Fiscal Period Covered by Statement		\$	—	
3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)		\$	—	
4. Amount Available for Distribution During Next Fiscal Period				\$ None
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period ends)				\$ None
<b>Prepared By</b>		<b>Reviewed By</b>		
Loan Technician	Date	Loan Servicer	Date	

form HUD-93486 (12-80)

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge

(Project No. 000-55074)

Supplementary Information – Supporting Data Required by HUD

Changes in Fixed Asset Accounts

Year ended June 30, 2004

	<b>Assets</b>			<b>Accumulated depreciation</b>			<b>Net book value</b>
	<b>Balance June 30, 2003</b>	<b>Additions</b>	<b>Balance June 30, 2004</b>	<b>Balance June 30, 2003</b>	<b>Current provision</b>	<b>Balance June 30, 2004</b>	
Land	\$ 2,492,265	—	2,492,265	—	—	—	2,492,265
Buildings and improvements	10,378,352	36,856	10,415,208	3,203,751	377,618	3,581,369	6,833,839
Furniture and equipment	150,402	—	150,402	84,924	30,079	115,003	35,399
	<u>\$ 13,021,019</u>	<u>36,856</u>	<u>13,057,875</u>	<u>3,288,675</u>	<u>407,697</u>	<u>3,696,372</u>	<u>9,361,503</u>

See accompanying independent auditors' report.

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
(Project No. 000-55074)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2004

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 1,947,420	
	Tenant Assistance Payments	5121	—	
	Furniture and Equipment	5130	—	
	Stores and Commercial	5140	—	
	Garage and Parking Spaces	5170	—	
	Flexible Subsidy Income	5180	—	
	Miscellaneous (specify)	5190	—	
	<b>Total Rent Revenue Potential at 100% Occupancy</b>			\$ 1,947,420
Vacancies 5200	Apartments	5220	(24,039)	
	Furniture and Equipment	5230	—	
	Stores and Commercial	5240	—	
	Garage and Parking Spaces	5270	—	
	Miscellaneous (specify)	5290	—	
	<b>Total Vacancies</b>			\$ (24,039)
	<b>Net Rental Revenue</b>			\$ 1,923,381
	<b>Elderly and Congregate Services Income - 5300</b>			
	<b>Total Service Income (Schedule Attached)</b>	5300	—	—
Financial Revenue	Interest Income - Project Operations	5410	5,584	
	Income from Investments - Residual Receipts	5430	—	
	Income from Investments - Reserve for Replacement	5440	—	
	Income from Investments - Miscellaneous	5490	—	
	<b>Total Financial Revenue</b>			\$ 5,584
Other Revenue 5900	Laundry and Vending	5910	43,877	
	NSF and Late Charges	5920	3,320	
	Damages and Cleaning Fees	5930	3,960	
	Forfeited Tenant Security Deposits	5940	—	
	Other Revenue (specify) (Schedule attached)	5990	—	
	<b>Total Other Revenue</b>			\$ 51,157
	<b>Total Revenue</b>			\$ 1,980,122
Administrative Expenses 6200/6300	Advertising	6210	1,868	
	Other Administrative Expense	6250	35,011	
	Office Salaries	6310	48,674	
	Office Supplies	6311	8,137	
	Office or Model Apartment Rent	6312	11,884	
	Management Fees	6320	78,828	
	Manager or Superintendent Salaries	6330	56,547	
	Manager or Superintendent Rent Free Unit	6331	29,964	
	Legal Expenses - Project	6340	5,896	
	Audit Expense - Project	6350	8,000	
	Bookkeeping Fees / Accounting Service	6351	—	
	Telephone and Answering Service	6360	11,238	
	Bad Debts	6370	44	
	Miscellaneous Administrative Expenses (specify)	6390	21,861	
	<b>Total Administrative Expenses</b>			\$ 317,952
Utilities Expense 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	21,262	
	Water	6451	59,848	
	Gas	6452	65,648	
	Sewer	6453	—	
	<b>Total Utilities Expense</b>			\$ 146,758

(Continued)

**FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY**

Rental Program – Cedar Ridge  
(Project No. 000-55074)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2004

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	74,391	
	Janitor and Cleaning Supplies	6515	9,886	
	Janitor and Cleaning Contract	6517	345	
	Exterminating Payroll / Contract	6519	9,719	
	Exterminating Supplies	6520		
	Garbage and Trash Removal	6525	18,480	
	Security Payroll / Contract	6530	26,106	
	Grounds Payroll	6535		
	Grounds Supplies	6536	84	
	Grounds Contract	6537	28,361	
	Repairs Payroll	6540	99,256	
	Repairs Material	6541	54,338	
	Repairs Contract	6542	46,279	
	Elevator Maintenance / Contract	6545		
	Heating / Cooling Repairs and Maintenance	6546	1,347	
	Swimming Pool Maintenance / Contract	6547		
	Snow Removal	6548	13,806	
	Decorating Payroll / Contract	6560	36,916	
	Decorating Supplies	6561	1,906	
	Other	6570		
	Miscellaneous Operating and Maintenance Expenses	6590	7,323	
	<b>Total Operating and Maintenance Expenses</b>			\$ 428,543
Taxes and Insurance 6700	Real Estate Taxes	6710		
	Payroll Taxes (FICA)	6711	44,957	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	478	
	Property and Liability Insurance (Hazard)	6720		
	Fidelity Bond Insurance	6721		
	Workmen's Compensation	6722	4,635	
	Health Insurance and Other Employee Benefits	6723	35,555	
	Other Insurance (specify)	6729		
	<b>Total Taxes and Insurance</b>			\$ 85,625
Financial Expenses 6800	Interest on Bonds Payable	6810	—	
	Interest on Mortgage Payable	6820	712,097	
	Interest On Notes Payable (Long-Term)	6830	—	
	Interest on Notes Payable (Short-Term)	6840	—	
	Mortgage Insurance Premium / Service Charge	6850	47,558	
	Miscellaneous Financial Expenses	6890	—	
	<b>Total Financial Expenses</b>			\$ 759,655
Elderly and Congregate Service Expenses 6900	<b>Total Service Expenses (Schedule Attached)</b>	6900		\$ —
	<b>Total Cost of Operations Before Depreciation</b>			\$ 1,738,533
	<b>Profit (Loss) Before Depreciation</b>			\$ 241,589
	Depreciation and Amortization	6600		\$ 407,697
	<b>Operating Profit or (Loss)</b>			\$ (166,108)
Corporate or Mortgagor Entity Expenses 7100	Officer Salaries	7110		
	Legal Expenses - (Entity)	7120		
	Taxes (Federal - State - Entity)	7130-32		
	Other Expenses (Entity)	7190		
	<b>Total Corporate Expenses</b>			\$ —
	<b>Net Profit or (Loss)</b>			\$ (166,108)



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

The Board of Supervisors  
County of Fairfax, Virginia

United States Department of Housing  
and Urban Development

The Board of Commissioners  
Fairfax County Redevelopment  
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Rental Program – Cedar Ridge (Project No. 000-55074) (the Project) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, that are required to be reported under *Government Auditing Standards*.





This report is intended solely for the information and use of the Board of Supervisors of Fairfax County, Virginia, the Board of Commissioners of the Fairfax County Redevelopment and Housing Authority, the Project's management, and the United States Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 13, 2004